

**KATHLEEN
McGUINNESS**



**DELAWARE
STATE AUDITOR**

State Auditor

OMB Budget Hearing

Fiscal Year 2023

The Honorable Kathleen K. McGuinness

November 18, 2021



Mission Statement



The Delaware State Auditor serves Delawareans by providing **independent objective oversight of the state government's use of taxpayer dollars** with the goal of deterring fraud, waste and abuse through unbiased assessments, including the use of various audits, special reports, and investigations of financial operations designed to ensure statutory compliance while **enhancing governmental economy, efficiency and effectiveness.**



Accomplishments



In the first 6 months of 2021, OAOA has identified **\$111.6 million** in **efficiency savings, government overspending** and **potential tax revenue**.

- Identified \$24.5 million Express Scripts Inc. overcharged the State of Delaware for its state employees' prescription drug plan from 2018 through 2020.
- The Department of Corrections could have saved up to \$44.1 million over seven years in pharmacy and prescription drug costs for inmates without compromising services.
- OAOA estimates that regulating the sale of marijuana would generate more than \$43 million in tax revenue.

Given our annual General Fund budget of ~\$2.8 million, that's **a ROI of more than 39 times our annual spend.**



Accomplishments



Received over 1,000 Hotline Communications in FY21.

(That's greater than the number of tips made over the last decade combined!)

- Calls made to 1-800-55 FRAUD/submitted via the fraud app: fraud.Delaware.gov/letters via U.S. Mail

Fun Fact: Half of all fraud findings come from tips from the public.

Launched Project: Gray Fox

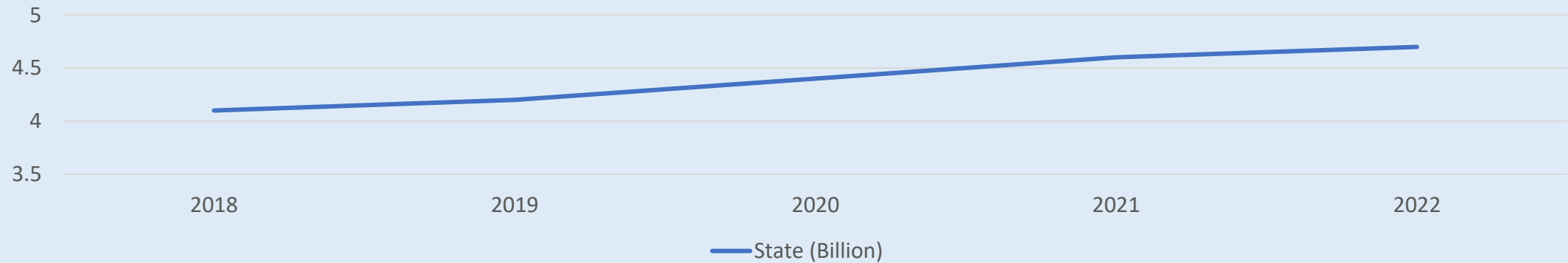
- Provides transparency in American Rescue Plan Act spending
- Creates a one-stop-shop for municipalities and school districts to modernize staff processes for budgeting, planning, reporting and engagement with their communities
- Meets the U.S. Treasury reporting standards for all but six of Delaware's municipalities



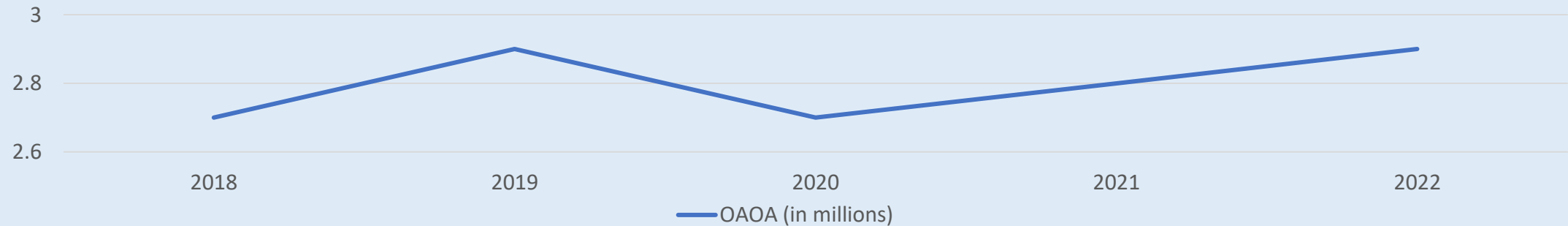
Prior Year General Fund Budgets



State Budget (in billions)



OAOA General Fund Budget (in millions)



Annual Comprehensive Financial Report (ACFR)

- **Delaware's yearly fiscal report card**
- **Impacts the state's bond rating and tells financial investors whether Delaware is a safe bet for investment**
- **Federally mandated and could affect Delaware's receipt of federal funding if not completed on time**



Single Audit (SA)

- **The Single Audit is an audit of federal funding allocated to states.**
- **If the Single Audit is not completed, all state agencies risk losing eligibility for federal monies they receive to help Delawareans.**



Systems and Organizational Controls (SOC)

- **The Systems and Organizational Controls (SOC) report is a way to verify that an organization is following best practices for internal controls related to finance, security, processing, integrity, privacy, and availability. These reports are prepared by independent CPA firms.**



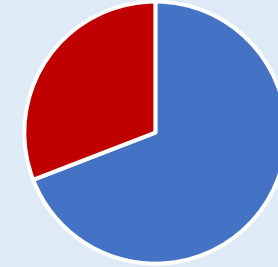
Operating Budget Request: Increase Contractual Services General Fund Budget

Existing budget fails to cover the full cost of the three biggest, constitutionally mandated audits:

- ✓ The Annual Comprehensive Financial Report (ACFR)
- ✓ The Single Audit (SA) and
- ✓ The Systems and Organizational Control Audit (SOC)

FY23 ACFR/SA/SOC

Cost: \$1,177.2



■ GF Contractual ■ Uncovered Amount
\$783.30 **\$393.92**

If we encumber the full amount of funds needed for those audits alone (**\$1,177,200**), we will already exceed our total General Fund contractual budget of \$783,300 by **\$393,920**. It is worth noting the cost of the Single Audit has increased nationwide.



Operating Budget Request: Increase Contractual Services General Fund Budget

29 Del. C. Ch. 29 §2906(d) states:

“The expenses incurred for the performance of such agency postaudits upon authorization of the Auditor of Accounts shall be charged:

“(1) To general fund appropriations of the General Assembly to the Office of Auditor of Accounts for Audits of general fund activity;

“(2) To capital appropriations of the General Assembly to the several agencies for audits of capital fund activity; and

“(3) To general fund appropriations and/or special fund accounts for audits of special fund activity. If there is any question as to the proper accounts to be charged, the question shall be resolved by agreement between the Auditor of Accounts and the Director of the Office of Management and Budget.”



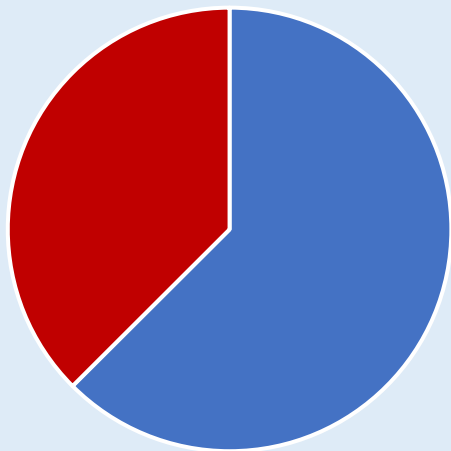
Operating Budget Request: Increase Contractual Services General Fund Budget

- The State Auditor's Office provides independent objective oversight of state government's use of taxpayer dollars. The State Auditor's Office is responsible for conducting financial audits and independent assessments for state agencies, *including the Department of Justice and agencies who depend upon their legal counsel.*
- **OAOA is requesting additional contractual services funds in the amount of \$150,000 to retain independent counsel to better serve the interests of Delawareans and ensure appropriate legal representation for the state's independent fiscal watchdog to avoid any conflicts of interest.**



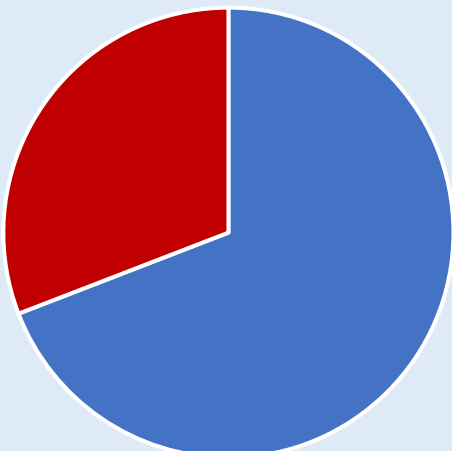
Operating Budget Request: ACFR, SA & SOC

FY21 ACFR/SA/SOC Cost:
\$933.0



■ GF Contractual ■ Uncovered Amount
\$583.30 **\$349.70**

FY22 ACFR/SA/SOC Cost:
\$1,177.2



■ GF Contractual ■ Uncovered Amount
\$783.30 **\$393.92**



Operating Budget Request: Increase Contractual Services General Fund Budget

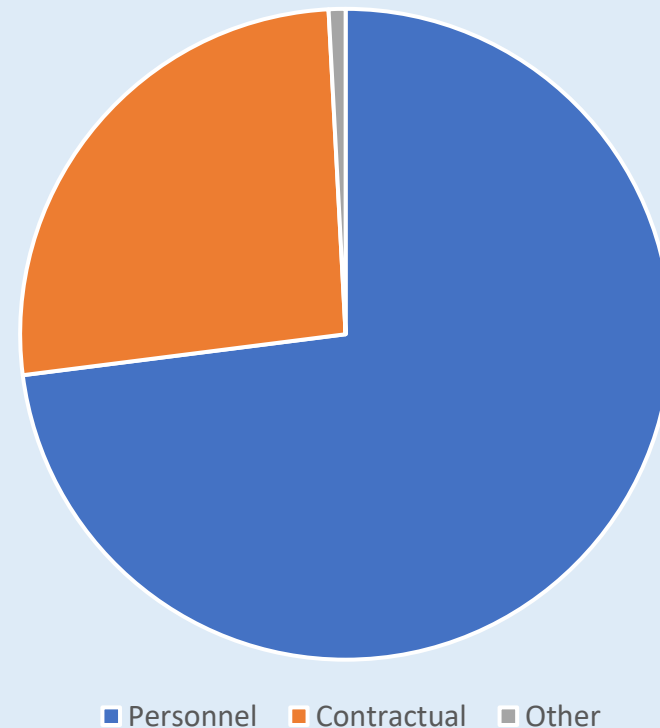
Annual Comprehensive Financial Report (ACFR)	\$618,825	Total \$1,833,328
Single Audit (SA)	\$487,085	
Systems and Organizational Controls (SOC)	\$71,313	
Technology/DTI	\$69,310	Current Contractual Services General Fund Budget \$783,300
Office Costs	\$25,000	
Required Continuing Education for Staff & Professional Association Memberships	\$61,795	
Audit Tools and Review Services	\$350,000	Uncovered Amount \$1,050,028
Independent Counsel	\$150,000	



Operating Budget Request: Increase Contractual Services General Fund Budget

- ✓ FY23 Request of additional \$1,050,028 to GF contractual budget to fully cover the cost of the ACFR, SA, and SOC, as well as other required office costs that are paid from the contractual budget.
- ✓ Failure to fully cover these essential responsibilities means OAOA will once again have to pull funds from ASF and from OMB to cover the full cost **or risk Delaware losing its AAA bond rating and ability to obtain federal monies and other financing opportunities**

General Funds Budget FY 22



Operating Budget Request:

Personnel: Transfer Seven (7) ASF Positions to GF

State Auditor		Auditor III	Human Resources Specialist III
Chief Administrative Auditor	Administrative Auditor	Auditor III	Auditor IV
Deputy Auditor	Administrative Auditor	Auditor III	Auditor III
Executive Assistant	Auditor III	Auditor III	Auditor III
Fiscal & Policy Analyst	Auditor III	Auditor I	Auditor II
Senior Fiscal Administrative Officer	Auditor III	Auditor I	Administrative Auditor
Auditor III		Auditor I	Accountant

-  General Fund Position
-  Appropriated Special Fund Position
-  To Be Filled ASF Position

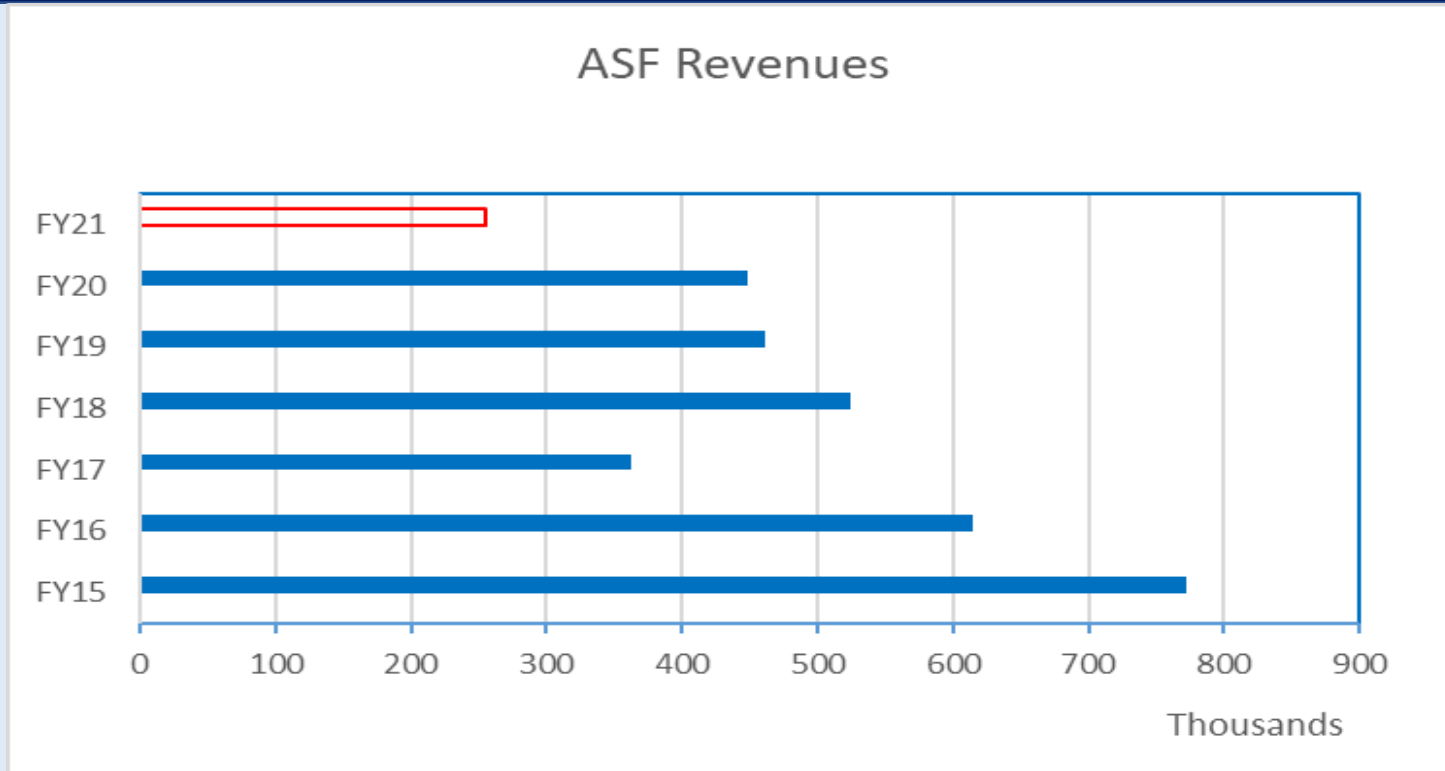


Operating Budget Request: Personnel: Transfer Seven (7) ASF Positions to GF

- **Currently OAOA has seven positions that are ASF funded, and all seven are vacant.**
- The office has only 26 allocated positions total.
- This represents more than 25% of staff positions that are not (and cannot) be filled without moving these positions' funding to General Funds.



Special Funds (ASF) Revenues Decreasing



Note: FY21 represents ASF Receivables



Conclusion

- FY23 Request of additional \$1,050,232 to General Fund Contractual budget to fully cover the cost of the ACFR and related audits, as well as other required office costs that are paid from the contractual budget.
- Move 7 personnel positions from ASF funding to GF.



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Thank You

